



MEMORANDUM

TO: Mayor and Council Members
Marc Ott, City Manager

FROM: Roger Duncan, General Manager

DATE: November 5, 2008

SUBJECT: Critical Business Need for Replacement of Gas Turbine at Mueller Energy Center

ACTION:

As detailed below, and in accordance with City Council approved purchasing procedures, I am designating the replacement of the gas turbine located at the Mueller Energy Center as a Critical Business Need of Austin Energy (AE). This unit suffered a major failure which has rendered it inoperable. In accordance with AE's Commodities Services Agreement and the associated Contingency Plan for Dell Children's Medical Center of Central Texas, it is critical that AE authorize and purchase this unit as soon as possible.

BACKGROUND:

The Mueller Energy Center gas turbine suffered a major failure on Wednesday, August 13, 2008. The Dell Children's Medical Center was not affected by this incident.

The turbine manufacturer visited the site and determined that the failure appeared to be in the combustion or turbine section of the unit. On August 26, 2008, AE issued a Critical Business Need memo for the repair of the turbine for a "not to exceed" cost of \$1,200,000. The turbine was removed and shipped to the manufacturer to determine the root cause of the failure and thereby develop a firm repair price. After dismantling of the turbine and a closer inspection, it was determined that repairing the turbine would be more expensive than the "exchange price" for a rebuilt turbine. The manufacturer offered AE a rebuilt turbine for \$1,200,000. However, AE staff negotiated with the manufacturer and obtained a new turbine for the price of a rebuilt turbine at a further discounted "exchange price" of \$857,650.

Austin Energy filed an insurance claim and expects that a significant amount, less the deductible, will be reimbursed at a later date. AE plans to bring this item forward for ratification by the City Council in the next several weeks. Please let me know if you have any questions. I can be reached at 322-6157.



Roger Duncan
General Manager